

Ohio School District Frauds: A Case Analysis

An Honors Thesis (HONR 499)

by

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Abstract

Fraud is always around, whether people notice it or not. Fraud has led to changes within the accounting world for decades. Standards and regulations are constantly changing and evolving to prevent frauds from occurring. Frauds in school districts are even more personal because not only we, as taxpayers, end up losing money that we have sent to the schools, but the people who are affected generally have kids attending this school. That is why procedures should be in place and maintained to stop frauds from occurring. The analysis of six major school district frauds in the state of Ohio gives an idea of how the fraud occurred, how the auditors assessed the fraud, and how the school district changed after the fraud, if they did.

Acknowledgments

I would like to thank Dr. Tiffany Westfall for advising me through this project. Her help during this task was supportive, yet she continued to push me to stay driven and motivated despite all my attempts to push it back. I appreciate her for this more than she knows.

I would also like to thank my mother for being a similar model, always hounding me, telling me to complete this project right away. An appreciation for Dr. Renee Flasher is also due for giving me the idea for this paper and allowing me to access her research.

Process Analysis Statement

Coming with the idea for a thesis paper is not always the easiest of decisions. Someone could ask dozens of faculty and family members and still come away with a few possibilities. This was the case for me as nothing quite sounded like something I would want to spend hundreds of hours working on with an advisor. Eventually, though I had a break through: Dr. Renee Flasher informed me of her research over school district frauds all over the United States. For another student, this would not have meant anything, but for me, it was perfect. Fraud has always been something that intrigued me, but I needed something to make it a little more personal. That just happened to be making the frauds about something I could relate to: school district frauds. When I was in high school, a nearby school had a faculty member accused of fraud. I could finally see this paper going somewhere. I would do school district frauds, but all in the state of Ohio, my home state. I could analyze this particular fraud that drove me to engage in this topic for my thesis. But I could not just do one fraud: there just is not enough material there for a whole thesis, so Dr. Westfall and I decided to analyze multiple cases throughout the state in the last few years. I had no idea which frauds I wanted to do or even how to go about finding the information on them. A simple email to Dr. Flasher would be the spark I needed to begin my research. She was generous enough to share her information with me on how she would choose her cases to research and where she would find the material to proceed. She informed me that she would find all her cases for Ohio on the State Auditor's website, which seemed simple enough to find. I went to their website and followed her instructions to find the audits, but alas, their website was down for maintenance. It says to email them if someone wants the information on the website. This would sound easy enough, except when I emailed them, I did not receive a response. I thought to myself that this would be fine, the website should be up soon enough. I would be

wrong in this instance, as I type this five months after I originally viewed the website, it is still under maintenance. A week or so had passed, and I was still left sitting on my hands, not progressing in my research at all. Finally, I decided to call them and ask them when the website was going to be back up. They informed me that they were not sure, but they had an Excel spreadsheet with all the frauds on it. Perfect, now I can begin the research. As I opened the spreadsheet, I was not prepared for what I was about to see. Here lay over 100 fraud audits performed by the Auditor of the State's office since 2011. Of these 100, I had to determine which ones related to school districts and which ones related to city offices, public services, and county offices. After reading through the audits, I had narrowed the audits relating to school districts down to about 25. Next, I read through these audits one more time to determine which six audits I wanted to analyze. Most of the audits were different variations of the same fraud style, so that added a level of stress to me that I would have preferred to avoid. How was I supposed to decide which six I wanted to review when they all present a similar style of fraud and audit? Eventually, I broke the list down to six based on magnitude of the entities, location, and the procedures the auditors used. Location was used for some of the frauds because a couple of them were relatively close to my school district, and I was aware of these occurring while I was in school. I just never was able to fully analyze or review them until this research. After I went through the school districts near me that experienced frauds, I went through the magnitude of the audit, both in terms of restitution and objectives that the auditors went through. The procedures that the auditors used was my next deciding factor, looking through the process that they used and if they found any evidence that led to any additional investigation. After deciding which six audits I wanted to examine, the process of forming them into analyses was an easy next step in the process. Overall, the examinations, analyses, and summaries of the audits was an

enjoyable process that not only added to my level of knowledge, but frauds are intriguing to engage with. The depth of these audits and the processes the auditors work with are something that anyone with an interest in accounting or fraud can use to improve his or her skills in the field. Even someone with no interest in accounting could enjoy this analysis to understand how frauds occur and how they can be prevented with some simple checks and balances.

Introduction

Wrongful or criminal deception intended to result in financial or personal gain: it seems simple enough, but frauds are far from simple. They can last for years and could be so obvious that the average person could spot them. So why is it that they continuously happening? Most of the time, it is similar, the perpetrator thinks he/she can outsmart other individuals and get away with stealing money, assets, or information. In the short term, they might be right, but eventually slip ups may occur, and someone usually catches them. Hence, the auditors or police investigate and resolve the issue, including the perpetrator likely going on trial, any restitution he/she must pay, and establishing fraud prevention tactics.

A theory in the criminal world around the fraud triangle exists that can be used to explain the reasoning behind a worker's decision to commit fraud. This theory was developed by American sociologist Donald R. Cressey, who worked in criminology and white-collar crimes.

The first step of the triangle is the pressure on the individual to commit the fraud. This can be caused by personal financial pressure, whether this is due to a person having spending issues or

The Fraud Triangle



maintenance of a current lifestyle. The second step is the opportunity for the person to commit the fraud. In this phase, the employee sees a clear course of action to abuse his position of authority to overcome his financial problems. This usually does not occur unless the perpetrator believes he can get away with it. The final step of the triangle is ability to rationalize the crime, which requires the employee to believe that what he is doing is not morally wrong. Most of the

perpetrators have never committed large scale crimes and do not see themselves as criminals. They instead see that they must do this, and they are the victims. The fraud triangle can be used to explain most instances of fraud.

Each fiscal year, the Auditor of State in Ohio reviews each school district in an annual audit of the school's financial information. In these audits, the audit teams will review the school district's accounting policies, determining if the school is susceptible to fraudulent events. If the audit team sees a potential issue, they will inform the school of this and suggest actions to prevent a possible fraud. Even though the audit team informs the school, the school does not carry out this action plan. These instances are usually where the frauds occur, and the school districts are to be blamed. There are other instances where the audit team will not recognize the openings for the crime, and this can cause the fraud to occur for multiple years without anyone noticing. In this case, the fault of the fraud is put on both the school district and the Auditor of State.

In school districts, schools are always trying to utilize state provided funds, so when a fraud occurs, the faculty and school can lose money. It would make sense that school districts would have policies and procedures in place to detect fraud early and prevent it; however, frauds are very common in schools. It isn't a geographic issue either, as these frauds are occurring all over the country. According to an article titled, "Bogus Barks and Administrative Excess: How School District Fraud and Waste Cuts Into Teacher Pay", an Arizona school district administrator stole \$236,000, or about as much as the total teacher payroll. The article went on to say that Topock, the school district, "did not submit audits and had significant internal control deficiencies identified in the audit report." This fraud that cost the school a significant amount of money could have easily been avoided if the school implemented basic accounting oversight.

This is the case with many schools nationwide, so it leads to the questions: when will schools put in precautions to stop frauds?

A career revolving around school district audits and frauds is certainly available and possible for anyone wishing to pursue this career path. Each state in the United States has an auditor's office that performs audits on not just school districts, but also village and county offices, courts, libraries, hospitals, etc. This would allow for an individual to experience many different types of audits and reports. For this analysis, the focus will remain solely on school districts in the state of Ohio as that would be where I grew up, and a few of these school districts were rather close to my hometown.

Now, while I may never deal with a school district fraud, or even an audit in this industry in my lifetime, frauds can be similar throughout various industries. Through studying these various audits in school districts, I intend to learn techniques to identify frauds before they become serious issues. The processes auditors use when working through fraud cases give me a fundamental basis to evaluate fraud related certifications when starting my career.

The Auditors of State's office in Ohio has released every fraud audit that they have performed since 2011, detailing various information throughout the special audit. This information includes how the auditors were informed of potentially fraudulent activities, the process they used to review the evidence related to the fraud, the restitution the perpetrator must repay, and the policies the school had in place to prevent the fraud. Most of the frauds that they have reviewed have involved money or theft of some form. There have been a few cases that did not involve money, but rather tampering with records or conflicts of interest. These cases would not usually result in any restitution, but potentially fines, community service, or even jail time. The State's office has released 29 unique audits regarding frauds in school districts since 2011.

Of these 29 cases, 24 of them have involved restitution being paid by the defendant. The minimum restitution paid in these 24 cases is \$506, while the maximum amount paid is \$3,400,000 (restitution for this case was split among 4 defendants). The mean restitution paid for these cases was \$297,298, but the median of the population was much more reliable at \$57,738. The standard deviation for restitution was \$711,151, which shows the outliers in the population. In terms of restitution, most of the third quartile was rationed between multiple individuals. Of these 24 fraud audits presented by the State Auditor's office, six of these (or 25% of the population) will be thoroughly examined reviewing the audit, how the fraud occurred, how the perpetrator was revealed, any restitution paid by the defendant, any proactive policies in place by the school district, and if there were any additional preventative measures put in place to prevent future frauds.

Case 1

The first audit review, relates to a standard theft by a faculty member. On May 26, 2016, the Auditor of State's office in Ohio released an audit with findings for recovery against an administrative assistant at Westside Community Schools of the Arts in Cuyahoga County. Raebecca White, the administrative assistant, was charged with theft after she was found to be stealing money from the charter school. According to the audit report, she stole \$32,393 that was supposed to be deposited in the school's bank account. White was awarded a finding for recovery in the amount of \$32,393 that she must repay as restitution.

Westside Community Schools of the Arts was audited for the year ended June 30, 2015 by the Ohio State Auditor's office. In this audit, the purpose of the auditors was to look for internal control deficiencies or material weaknesses with the school. They also checked for any compliance issues in accordance with GASB (Government Auditing Standards Board). The

school did not have any compliance issues, nor any internal control deficiencies. This makes the theft that Raebecca White was able to hide for five years even more confusing.

Raebecca White was the administrative assistant at Westside Community Schools of the Arts. Her responsibilities included student material fee billings, collections, deposits, and processing. She would receive money collected by teachers for field trips, dress down days, fundraisers, and other activities. She was the initial point of contact for students and parents that made payments to the school. Ms. White was then tasked to prepare and deposit this money collected. The Auditor of State's office found 375 instances in which the money was not deposited and directly attributable to Raebecca White. When she was interviewed by the Auditor of State, she admitted to committing theft. Ms. White was terminated on March 26, 2015 for reasons unrelated to the theft.

The Auditor of State's office was alerted to the case by a faculty member at the school. The office approached the case by looking through all the student receipts received by the school for the period July 1, 2011 through June 30, 2015. They then compared these receipts to the deposits made to the school bank account. They also compared the receipts for student material fees to the school Data Analysis for Student Learning (DASL) system reports. Of the 6,235 receipts examined by the auditors, 482 of them, totaling \$38,390, were identified as not deposited into the school bank account. The office directly attributed 375 of the 482 non-deposited receipts, totaling \$32,393, to Ms. White. The \$32,393 is to be repaid by Raebecca White to the school in the appropriate funds: Westside Community School of the Arts General Fund for \$27,767, Local Fund for \$2,770, Field Trip Fund for \$1,634, Student Activities Fund for \$132, and Managed Student Activities Fund for \$90.

Case 2

Similar to the previous case involving a faculty member stealing from the school, this second case also involves an employee stealing from both the school and the athletic boosters. The Auditor of State's office in Ohio released a special audit over Perrysburg Schools on February 2, 2016. This audit covered the period of January 1, 2009 to July 15, 2014. According to the special audit, the defendant of the case, Eric Whitson, stole more than \$479,800 from the Perrysburg Exempted Village School District and another \$181,900 from the Bowling Green Bobcat Athletic Boosters. Total findings for recovery for this case were \$479,873 to be paid by Whitson (the Boosters are a nonprofit entity, and the Auditor's office does not have authority to issue findings for recovery). When searching for fraudulent activity, the State Auditor's office found another \$3,751 of theft that was charged to District Treasurer Matt Feasel. Feasel was jointly liable for \$91,588 of the \$479,873 charged to Whitson.

The Auditor of State's office was informed of suspected fraudulent activities in July 2014 by the Wood County Prosecutor's office. The prosecutor's office requested a special audit from the State Auditor's office at this time along with assistance with a criminal investigation. The purpose of this audit was to "determine whether certain disbursements made by the District during the Period were supported and were for a proper public purpose" and "determine whether certain revenue collected during the Period by former District employee Eric Whitson was deposited into District bank accounts." There were some compliance issues that the auditors found, including lack of record retention and lack of timely deposits.

Eric Whitson served as the accounts receivable clerk at Perrysburg Schools and volunteer treasurer for the Bowling Green Bobcat Athletic Boosters. Whitson was accused of stealing money from the athletic boosters and replenishing the money with checks from Perrysburg Schools. On July 2, 2014, Whitson was arrested and placed on administrative leave, and a day

later, a search warrant was executed on Whitson's residence. In his house, the Wood County Prosecutor's office and Bowling Green Police Department found cash, undeposited checks to the District and Boosters, computers, and financial documents. Whitson was terminated from the District less than two weeks later.

Auditors found that Whitson had issued district checks totaling \$169,220 to the Boosters that were not for district purposes or authorized by the District. These checks covered up cash that Whitson stole from the Boosters. Whitson also wrote checks without authorization to fund what Whitson claimed were personal and corporate donations to the athletic department totaling \$71,992. Inside Whitson's residence, \$30,398 in undeposited checks and cash was found by the police department and prosecutor's office. Another \$10,900 of undeposited checks was later found in a district storage room. While searching for information on Whitson, the auditors found that District Treasurer Matt Feasel was aware of some of the illegal transactions committed by Whitson. The auditors also found \$3,751 of credit card expenditures made by district employees that were unrelated to district operations, all approved by Feasel.

Of the compliance issues previously listed, the Auditor of State's office informed Perrysburg Schools of some recommendations that the school should implement to better protect the District from fraudulent activities in the future. One of the recommendations listed involved district credit cards. The previous District's credit card policy did not list information regarding limitations, supporting documentation, approval of use, or allowable expenses. The District also did not review credit card expenditures to track and ensure items were of District purpose or supported with proper funding. This resulted in missing information that would have been beneficial to the auditors throughout the process. The auditors also noted that the District should limit the number of credit cards used by the school, maintain and limit the number of credit card

transactions, and provide training to each card user to inform them of the policies regarding the credit card. Another recommendation involved segregation of duties regarding all phases of the accounting cycle. They include having different individuals be responsible for collection, deposit, posting, and review of revenue collection. Also, issuing disbursements, preparing checks, and reviewing credit card activity should be split between multiple employees. If segregation of duties is unattainable, oversight by management is a necessity to ensure appropriate transactions are occurring. The final recommendation that the auditors provided involved revenue recognition. The auditors noted several issues with revenue recognition at the District, including cash collections not being deposited or posted, checks issued to the District substituted in deposits for cash, deposits of funds made five or more days after collection, and duplicate receipts not always being issued. The auditors recommended for the District to issue duplicate receipts to individuals to document fees received, to maintain lists that contain collection information, and to reconcile the revenue ledger to ensure everything is accounted for properly posted. The District has gone on to put these recommendations into practice and monitor them much closer than before the fraud.

Case 3

Like the fraud above being in the third quartile of restitution awarded, the third case was also among the largest of the special audits that the State's office has reviewed since 2011. The school district involved in this case is the Lion of Judah Academy in Cuyahoga County and spanned over four years and three audits. One of the defendants, Carl Shye, was charged for not just this fraud, but also for frauds at other community schools in Ohio. Four defendants were indicted on charges of unlawful interest in a public contract. The defendants were ordered to repay almost \$1.3 million in restitution according to three audits released on February 13, 2014.

The periods covered and reviewed by these audits included 2007-2010. The Auditor of State's office conducted three different audits of the school district during this time. Of the audits completed, one was in 2007, one was in 2008-2009, and the last one was in 2010. In the first two audits, the audit team found some points of emphasis that they wanted the school to address, but the school district ignored these requests. Hence, the audit team performed a special audit of the school district in 2010, regarding the standards that the school district did not comply with.

The 2007 audit was just a routine audit that the Auditor of State's office conducts each year over every school district. In this audit, the auditors found some concerning items regarding documentation and evidence for multiple portions of the audit. This included lack of evidence of Board approval of the salary and wage amounts paid to employees and no supporting documentation for expenditures or *Other Revenue*. They also did not provide evidence to support the notes to the financial statements. This affected the auditor's ability to gauge the internal control and compliance of the Academy. They still noted some material weaknesses and noncompliance: most of the findings for recovery in the 2007 related to the Academy not providing documentation for various checks disbursed throughout the year, the condition of accounting records, and developing an effective monitoring control system. The auditors even noted that "the failure to maintain adequate support for these expenditures could result in a loss of accountability over the Academy's finances, making it difficult to identify errors which could go undetected." Hind-sight reveals that this was the first real warning sign around what was going on at the Academy.

In the 2008-2009 Academy audit, the auditors found the same items regarding the lack of documentation for Other Revenue. In this audit, more accounts (receivables, payables, capital assets, and even cash) were not supported by documentation. In this fiscal year, the Academy

entered into a contract with Carl Shye to serve as the Chief Fiscal Officer of the Academy. This is also the year in which the Academy entered into a public contract with Latter Enterprise, Inc. The issue with this contract was that Romey Coles, Superintendent of the Academy, Rosina Coles, Board President, and Sheryse Henderson, Business Manager for the Academy, were all incorporators of Latter Enterprise. During 2008, the Academy made payments of \$246,198 to Latter Enterprise and another \$246,440 during 2009. During the two years, \$147,553 of the \$492,638 were unsupported payments. Without documentation, it is impossible for the auditors to determine if these were school related expenditures or for the right purpose. Thus, the three school officials were jointly charged for the full amount of \$492,638. Meanwhile, treasurer, Carl Shye, was made liable for this amount and ordered to pay restitution.

The Academy also entered into a contract with Eclipse International LLC in 2008. The Academy overpaid Eclipse twice for work done at the school for a total amount of \$24,500. This amount was charged to Shye and added to the restitution total. It was also revealed that the Academy was writing checks made payable to cash and withdrawing amounts of money in excess of \$20,000. This amount was jointly charged to Coles, Shye, and Henderson. Coles and Shye also were charged with almost \$32,000 in restitution due to writing checks with no supporting documentation. Shye and Coles were charged another \$222,813 and \$34,017, respectively for unlawful interest in a public contract. A few other charges were made against the four defendants in 2008. The auditors marked the Academy for noncompliance for the condition of the accounting records because of the incomplete information, lack of evidence, and lack of documentation. They also noted a material weakness of the entity-wide bank reconciliation, a material noncompliance over their Education Information Management System (EMIS), a material noncompliance for lacking a five-year forecast, a material noncompliance for their lack

of documentation regarding annual financial reporting. They noted another seven noncompliance issues that the Academy had not addressed. By the time this audit was completed in fiscal year 2010, the damage had been done by the Academy.

In the fiscal year 2010 audit, the Academy still had not corrected their lack of documentation in multiple accounts on the financial statements. They also made more payments of \$383,553 to Latter Enterprise. Payments to similar corporations from 2008-2009 were again made in 2010, but not to the amount of the previous years. By the time these transactions were going through, Edward Dudley had replaced Shye as treasurer of the Academy, but he claimed to be unaware of these transactions, saying officials of the Academy were going over his head. There were also the same material weaknesses and noncompliance as the previous year, except a few were changed and corrected. The Academy's sponsor was removed and placed under control of the Ohio Department of Education in September 2011. The Academy then ceased operations on May 3, 2013. Overall, the four defendants (Shye, Henderson, Coles, Dudley) were charged almost \$1.3 million to be repaid as restitution. Shye was also sentenced to two years in prison for federal embezzlement in relation to this case and others.

Case 4

While the previous case was rather large, in terms of both dollar amounts and years, the fourth case is on the smaller end of both of those terms. On March 31, 2015, the Auditor of State's office released a special audit against the Wauseon Exempted Village School District in Fulton County. A finding for recovery was issued against building secretary Angela Spadafore in the amount of \$7,019 for theft.

The audit covered the period between July 2013 and October 2014, estimating the amount of money was stolen based on product purchased and profit margins. It was determined that Spadafore stole approximately \$7,019 from vending machines over a little more than a year. She was responsible for collecting the money from the district vending machines and depositing it into the district's bank account. She did deposit some of the money she collected into the district's bank account; however, she was keeping significantly more than she was depositing. She ended up depositing \$3,834 into the district's bank account, while embezzling about \$7,019 from the District during the 16 months.

This theft was not found on the audit performed by Julian & Grube, Inc. for the period of July 1, 2013 to June 30, 2014. The Auditor of State's office had contracted Julian & Grube to conduct the audit. Julian & Grube did not report any findings or noncompliance with the school district; however, when the Auditor's office reviewed the audit, they noticed something odd with the related revenues and expenditures that they decided to investigate. With the profit margin and product purchases of the vending machines in previous years, they knew that the revenue appeared incorrect. When they questioned Spadafore, she confessed to the theft and then plead guilty.

Case 5

Most people may suspect that superintendents, who are generally viewed as the most credible people in a school system, would never commit fraud. The Auditor of State's Special Audit Task Force rarely is used, so when it is utilized, intrigue is formed. In January 2015, the Special Audit Task Force initiated a special audit as part of a joint investigation with the Clark County Sheriff's Office and the Ohio Bureau of Criminal Investigation (BCI). This was after the sheriff's office notified the Auditor of State's office that Tecumseh Local School District

Superintendent, Bradley Martin, was seen gambling at a casino during school hours. The audit period was from October 12, 2012 through December 11, 2014 and detailed findings for recovery totaling \$34,739 issued against Martin.

The issue was not that Martin was gambling away school dollars, it was that he was paid to work at the school, but he was away at a casino gambling. The Auditors determined that Martin spent 307 and 121 scheduled work hours at the casino and commuting to the casino, respectively. He was paid \$24,550 for this time that he was gambling and not working. This does not include the mileage reimbursements he received from the school for 77 trips which were not related to operations of the school district. He also skipped three meetings to gamble, which totaled \$805 in registration fees for the district. It does not stop there either. Martin was reimbursed \$6,470 for 12 iPads he claimed to have purchased for the district. The district never saw eight of those, valued at \$4,493.

The purpose of the audit was to (a.) examine documentation supporting casino slot machine playing activity associated with Martin and determine whether it was during work hours and (b.) examine documentation supporting non-payroll disbursements made payable to Martin to ensure that they were for district purposes.

The audit team obtained Mr. Martin's contracts with the District to determine pay for the audit period. They also investigated scheduled work days and identified days that Martin used sick days. They also obtained casino records from five casinos around the state of Ohio. They identified which days and times Martin was at these casinos. The Special Audit Task Force then went to collect cell phone tower analysis prepared by BCI to determine where Martin was at during work hours.

Their second objective dealt with the expense reimbursements on the iPads. The audit team identified all non-payroll disbursements issued to Martin, and they examined available supporting documentation to determine whether these transactions were district related or not. This was also the part of the process in which they investigated if Martin attended the meetings that the district paid the registration fees. Again, they examined cell phone records to determine where Martin was at during these meetings if attendance records were not available. At the end of the audit process, they issued a management recommendation to verify goods purchased prior to issuing payment. In all, Martin was ordered to pay \$34,739 in restitution, and he pled guilty to three criminal charges: theft in office, tampering with records, and forgery.

Case 6

The sixth case in this analysis is unlike any of the others reviewed. This case does not involve any money, just a culture of corrupt behavior and employee manipulation at Columbus City School District (District). The period under review by the auditors was July 1, 2010 through June 30, 2011. In the process of investigating the District, the Auditor of State's office interviewed more than 40 principals and assistant principals, more than 230 teachers, the available Regional Executive Directors (REDs), more than 20 secretaries and other office personnel, and 25 current and former employees of the Kingswood Data Center. The audit team determined that the District had a top-down culture of data manipulation and employee intimidation.

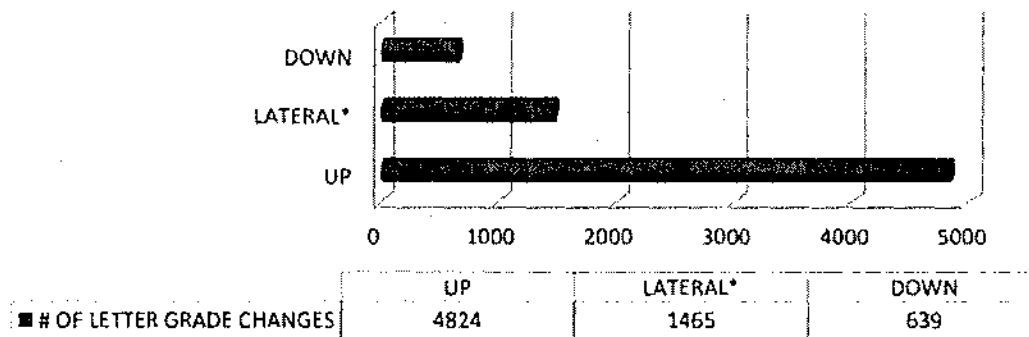
During the audit process, the Auditor of State's office became aware of alleged attendance and grading practices that were occurring at the District during their statewide examination of school districts. The auditors review potential data manipulation at each school district annually. The scrubbing of attendance data would make a district look better, improving

their performance ratings. This led the office to launch a special audit of the District. The audit process began with the auditors reviewing historical data and records back to 2002. They also began their interview process of individuals around the area or involved with the school district. The investigators reviewed thousands of emails, documents, student cumulative files, electronic files, and records provided by Columbus City Schools. Throughout the process, the auditors learned of a culture in which employees believed they had to skew data or they would face consequences. This pressure was felt all the way from principals to teachers. Teachers felt pressure from administrators to change grades because principals were pressured by REDs to show improvement from year to year. Most of the time, the faculty were forced to show improvements that did not really exist. If they did not comply, firing was a certain possibility; however, compliance led to promotion. The auditors would have expected an increased funding if attendance records increased. This was not the case at Columbus City Schools, as funding was almost inversely related to attendance.

Districts employees, in interviews, admitted to the process of withdrawing and re-enrolling students with poor attendance and low-test scores so their test scores would be “rolled up” to the state and not be reported in the district’s review. This process was led by administrators Steve Tankovich and Michael Dodds. In fact, the Auditor of State’s office determined that 374 students were withdrawn and re-enrolled all on the same day. Over 100 of these cases of withdrawal and re-enrollment were not supported by any documentation. There was also a review of 200 letter grade changes that the district could not provide supporting justification. This made it difficult for the auditors to determine whether the grade change was reasonable or not. The chart below shows the direction of the letter grade changes over the course of the audit period. Most of the bumped-up grade changes could not be proven with

evidence or documentation. On top of this, the audit team reviewed student absences from May and June 2011. They determined that 87% of these absences were scrubbed just a month after the absence.

DIRECTION OF LETTER GRADE CHANGES



***Note:** Examples of lateral changes included changes from percentage grades to letter grades. These changes represented lateral changes as there was no identified directional change in the reported grade.

The audit team made several recommendations to the school district that were implemented. These included maintenance of documentation supporting grade changes, notifications to teachers if administrators adjust grades at the end of the nine-weeks, unity in determining final grades, and training for making grade level changes, among others. The Columbus City School District remains under scrutiny today by the Auditor of State's office.

Conclusion

Understanding the audit cases as they relate to the special audits will allow me to develop skills and knowledge without even having seen a fraud in my life. This will not only give me an advantage if I do encounter one, but it will also allow me to look for inconsistencies in audits to identify frauds. I could even use what I have learned here on the exam in the process of getting a certification in fraud examining. To receive the certified fraud examiner (CFE) credential, one

must pass all four parts of the CFE exam. This exam includes questions regarding fraud prevention and deterrence, financial transactions and fraud schemes, investigation, and law. The fraud prevention and deterrence portion of the exam tests one's understanding of why people commit fraud and ways to prevent it. The financial transactions and fraud schemes part of the exam includes testing over the comprehension of the types of fraudulent financial transactions. This includes demonstrating knowledge of basic accounting and auditing theory and internal controls to deter fraud. The third part of the exam, investigation, includes questions regarding interviewing, taking statements, and tracing transactions to the root. The final part of the exam, law, tests one's familiarity with legal ramifications of conducting fraud examinations. Fraud is certainly a tricky subject, so any chance to be exposed to it and learning about it can only help in the future.

Most frauds, including those reviewed above, could have been prevented if basic procedures were in place to stop them before they occurred. Checks and balances, accounting oversight, and separation of duties are simple measures that school districts should have in place to avoid losing thousands or millions of dollars as shown above. Most schools even have internal audit departments, which check for material weaknesses or deficiencies. So why do these frauds occur at the rate that they do? Is it because school districts ignore the audits performed each year? Is there too much trust between the employees at these schools? It is tough to narrow it down to one specific reason, but any of these are possibilities. These cases have shown that everyone in the school district can be responsible for committing a fraud, and the cost to school district, even if it is not theft, can be monumental. Recovering from a significant fraud can set a school district back years in terms of both money and reputation. School districts, or for that

matter, any business, should not waiver on being on the conservative side when discussing frauds as they can be treacherous to employees, investors, and creditors.

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